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SUBJECT: NEWFOUNDLAND-LABRADOR OIL INDUSTRY: PRODUCTION MILESTONE  
AND OTHER ENERGY NEWS FROM "THE ROCK"

REF: 08 HALIFAX 0060 (AND PREVIOUS)

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11. SUMMARY: Newfoundland-Labrador has hit the one billion barrel mark in production from its offshore oil fields. The province also unveiled the new name of its energy corporation--Nalcor--which will oversee management of all the province's energy resources. Planned offshore drilling activity is, for the most part, going ahead despite economic uncertainty. But, the decline in oil prices has the Government of Newfoundland-Labrador (GoN-L) worried about the impact on the provincial budget. END SUMMARY.

## 12. N-L OIL PRODUCTION REACHES ONE BILLION BARRELS

NOIA, the Newfoundland & Labrador Oil & Gas Industries Association, announced on January 26 that the province's offshore oil industry had reached a significant milestone: one billion barrels of oil produced. The oil comes from three offshore fields: Hibernia, which saw first oil in 1997, Terra Nova (2002) and White Rose (2005). The three offshore fields produce an average of 343,000 bbl/day, making N-L the supplier of almost half of Canada's conventional light crude. That volume will be increasing over the coming years when expansions at the three fields are completed and when Hebron, the province's fourth offshore project, starts production in the 2016-18 timeframe.

## 13. NEW N-L ENERGY CORPORATION IN THE SPOTLIGHT

On December 11, the GoN-L announced the new name for its provincial energy corporation: Nalcor. Created in May 2007, Nalcor ([www.nalcor.ca](http://www.nalcor.ca)) grew out of the energy plan envisaged by Premier Danny Williams back in 2003 when he was fighting his first provincial election campaign. The Premier's intent then, as now, was to make N-L an internationally competitive player in resource industries and he saw the benefit in having one single entity focused on that goal. Accordingly, Nalcor will manage the province's interests in existing and future oil and gas developments, wind energy possibilities and electricity production. Effectively immediately, Nalcor becomes the parent company of the provincially owned utility, Newfoundland-Labrador Hydro, along with the Churchill Falls (Labrador) Corporation, and the Bull Arm fabrication site (a heavy industry construction site focused on onshore and offshore oil and gas developments). Nalcor will also take the lead in the proposed development of the Lower Churchill Hydro Project in Labrador. More immediately, Nalcor will manage the hydro-electric assets that the GoN-L expropriated (along with other assets) from the U.S. firm Abitibi-Bowater via the passage of Bill 75 on December 16, 2008, after Abitibi-Bowater announced that it would be closing its Grand Falls-Windsor paper mill in March 2009. Full control of

Nalcor and its revenue (forecasted to be in the \$10-20 billion range) will be with its only shareholder: the GoN-L.

#### 14. OFFSHORE EXPLORATION CONTINUES WITH ONE POSTPONEMENT

Despite the global economic downturn, exploration work is continuing offshore N-L. StatoilHydro Canada, Petro-Canada and Husky Energy are following through on their plans to share the drill rig "Henry Goodrich" over the next 24 - 30 months. StatoilHydro Canada has been the first of the three to use the rig in the Flemish Pass Basin for a short program, expected to wrap up in February/March. The rig then moves to Petro-Canada for its project to drill two development wells and one exploration well at the Terra Nova oilfield. Husky Energy is the last in line, but will have use of the rig for approximately 17 months to do further drilling at the White Rose field and one of its satellite fields where it will also use Global Santa Fe's rig "Grand Banks." In other drilling news, Chevron Canada and ConocoPhillips announced the postponement of their drilling plans for the Laurentian Basin, citing costs and a lack of rig availability. However, there is some speculation that the company could soon revisit that decision should the rig situation improve.

#### 15. GoN-L WORRIED OVER THE IMPACT OF LOW OIL PRICES

With oil revenues now accounting for a third of the province's revenue, GoN-L officials are worried over the effect that lower world oil prices will have on the fiscal health of the province. According to the province's finance minister, Jerome Kennedy, at \$50 per barrel the province's operating deficit will grow to \$900 million and even if prices should rise to \$60 a barrel (which he thought unlikely in the short term) that would still mean a \$600 million deficit. Since 1997 (when Hibernia first came on stream) to the end of November 2008, total royalties to the province have been in excess of \$5 billion, pushing N-L to where it has become one of Canada's top economic performing

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provinces.  
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